EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE OCTOBER 20, 2010, PENSION BOARD MEETING

1. Call to Order

Chairman Mickey Maier called the meeting to order at 8:30 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present	Members Excused
Linda Bedford (Vice Chair)	Dr. Sarah Peck
Donald Cohen	
Keith Garland	
Mickey Maier (Chairman)	
Jeffrey Mawicke	
Marilyn Mayr	
David Sikorski	
Guy Stuller	

Others Present

David Arena, Director of Employee Benefits, Department of Administrative Services
Mark Grady, Principal Assistant Corporation Counsel
Gerald Schroeder, ERS Manager
Dale Yerkes, ERS Fiscal Officer
Monique Taylor, ERS Clerical Specialist
Bess Frank, Ad Hoc Oversight Committee
Steven Huff, Reinhart Boerner Van Deuren s.c.
David Bertocchi, Baring Asset Management
William Tsotsos, Baring Asset Management
Brett Christenson, Marquette Associates, Inc.
Donald Weber, Future Retiree Trustee
Ken Loeffel, Retiree

3. Chairman's Report

The Chairman presented Ms. Mayr with a plaque on behalf of the Pension Board commemorating the Board's appreciation for her six years of dedicated service to the Employees' Retirement System. The Chairman stated that Ms. Mayr impressed him with her questioning of issues and that he learned a great deal from her. Ms. Mayr noted that it had been a great experience to serve on the Pension Board.

The Chairman introduced Donald Weber, noting he will serve as the next Retiree Trustee of the Pension Board starting at the November 2010 meeting. In response to the Chairman's request for a short description of his prior County service, Mr. Weber indicated that he was elected to the County Board in 1960 and served in the administrations of two subsequent County Executives.

The Chairman stated that the draft 2011 Board and Committee Meetings schedule distributed for a second time will be the official schedule unless conflicts arise. Mr. Grady noted that the September 6, 2010, Investment Committee meeting will probably need to be rescheduled because of the Labor Day holiday.

Mr. Schroeder raised the issue of whether to hold a regular Board business meeting in February in addition to the Annual meeting. The Chairman suggested that the Board consider this issue after the Board knows the size of the workload for Board action in February.

4. Minutes — September 15, 2010, Pension Board Meeting

The Pension Board reviewed the minutes of the September 15, 2010, Pension Board meeting.

The Pension Board unanimously approved the minutes of the September 15, 2010, Pension Board meeting. Motion by Mr. Cohen, seconded by Ms. Mayr.

5. Reports of Benefits Director, ERS Manager, and Fiscal Officer

(a) Benefits Director Report

Mr. Arena noted that ERS experienced an unfortunate incident involving a temporary employee who was recently charged with passing personal information from County records. The temporary employee worked for a private contractor. In response to a question from Mr. Garland, Mr. Arena stated that the temporary employee had access to County records for one year.

In response to Ms. Mayr's comment that retirees are anxious to know whether they are one of the affected individuals, Mr. Arena indicated the County is calling the 27 affected individuals and also sending them a follow-up letter. While there is no evidence yet that any of the affected individuals have experienced a monetary loss, the private contractor is bonded and insured for these types of incidents. The County will pursue legal action against the private contractor to cover the costs of remedial action by the County and any monetary losses experienced by affected individuals.

In response to a question from Mr. Garland, Mr. Arena stated that the County administration decided to contact the affected individuals directly instead of contacting all retirees and active employees. Mr. Arena also indicated that the County is instructing the affected individuals to take action to protect themselves.

Mr. Loeffel suggested that it may be helpful to publish an article in retiree and employee newsletters regarding what to monitor in order to recognize identity theft and steps to take when identity theft occurs.

(b) Retirements Granted, September 2010

Mr. Schroeder presented the Retirements Granted Report for September 2010. Twenty-three retirements were approved in September, with a total monthly payment amount of $41,442. Of those 23 retirements, 15 were normal retirements and 8 were deferred vested retirements. Eleven retirees elected backDROPs in amounts totaling $2,192,548.

(c) ERS Monthly Activities Report, September 2010

Mr. Schroeder presented the Monthly Activities Report for September 2010. ERS had 7,502 retirees at the end of September 2010 and paid out $14,552,594 in benefits for September 2010. Mr. Schroeder indicated that those numbers are running about 20% higher than in 2009. ERS projects both retirements and payouts in 2010 to be about 20% higher than in 2009.

Mr. Schroeder then presented an update regarding mandatory direct deposit of retiree pension checks. Only 28 retirees received their pension payment through the use of a debit card account with U.S. Bank. ERS will not issue any paper checks in October 2010.

Mr. Schroeder distributed draft copies of the Votenet Solutions contract to discuss the draft Votenet Solutions contract. He indicated this draft still needs revisions. ERS is budgeting $7,200 to cover the costs of the 2011 employee election for Mr. Garland's seat on the Pension Board. The employee election will have both phone and internet voting.

Mr. Schroeder then presented an update regarding the Assistant Fiscal Officer position. ERS will screen 28 applications to select the top ten applicants. ERS hopes to complete the interview and hiring process in November 2010. In response to a question from the Chairman, Mr. Schroeder indicated the Assistant Fiscal Officer will report to Mr. Yerkes.

(d) Fiscal Officer/Cash Flow Report

Mr. Yerkes distributed a Portfolio Activity Report for September 2010 showing the change in the balance of ERS investments with each manager during the month and an ERS Check Register report for July 2010 to September 2010.

Mr. Yerkes then presented the ERS cash flow report. ERS cash flow needs remain unchanged. ERS still requires cash flows of $10 million for October, $15 million in November, and $15 million in December.

Mr. Yerkes next discussed the 2011 Pension Budget, which is scheduled for potential approval in November 2010. Mr. Schroeder indicated that he and Mr. Yerkes worked on the budget for the last six months. The budget accounts for costs for new V-3 releases and upgrades scheduled in 2011, which is the third year in a three-year V-3 implementation plan. The budget also includes quality assurance initiatives and the anticipated implementation of the OBRA corrections.

Mr. Schroeder stated the budget also accounts for County ownership of the V-3 system, which will allow ERS to perform onsite programming at a reduced cost as some lower-level functions move from Vitech to County staff. ERS will work with Vitech to implement onsite programming by County staff. ERS projects a savings of 40% to 50% on programming performed by County staff.

In response to a question from Mr. Cohen, Mr. Schroeder indicated the V-3 system is generating 1099s and will also generate W-2s. The V-3 system generated pension statements that ERS sent out last week. In response to the pension statements, ERS received about 50 calls from individuals who believed their pension statements needed a correction. This helps ERS correct the data in the V-3 system.

Ms. Mayr stated that while the 2011 budget shows a decrease of over one million dollars in investment manager fees from the 2010 budget, this number does not reflect the investment managers who charge fees against assets managed. Ms. Bedford suggested that ERS conduct a fee analysis of managers who charge fees against assets managed. The Chairman agreed. Mr. Yerkes indicated Marquette includes those numbers in their reports. The Chairman suggested the Pension Board review these numbers periodically.

Mr. Yerkes stated that the main reasons the investment manager fees are projected to decrease in 2011 are that ERS invested more funds with managers ERS does not pay directly and ERS also negotiated lower fees with some investment managers ERS does pay directly.

Mr. Yerkes then discussed other items in the 2011 Pension Budget. Cash management fees will decrease $75,000 because ERS no longer invests in the short-term cash fund with BNYM that required this fee. Salaries and benefits are forecasted to increase $180,000. A Benefits Division realignment that transferred an operations manager caused $109,000 of the increase. Another part of the increase reflects that ERS is now charged 25% of the salary for the administrative assistant to the Director of Employee Benefits for her work on ERS matters. Still other parts of the increase reflect that the County increased charges for health and pension benefits. The budget for salaries and benefits could change if furlough days are added.

Mr. Yerkes indicated legal fees are budgeted to decrease $90,000 because ERS is involved in less litigation and there are fewer RFPs. This decrease in legal fees could be offset by the OBRA project.

Amortization and depreciation is forecasted to increase $317,000 because amortization of 2010 capital additions was not included in the 2010 budget.

Mr. Yerkes noted that fees for outside consultants are budgeted to increase $159,000 because of the initiative to convert some of the V-3 system to County ownership. This expense will be offset by lower operating expenses.

Mr. Yerkes indicated that the budget for temporary employees is forecasted to decrease $121,000 because of completion of projects. The budget for Corporation Counsel is also forecasted to decrease $79,000. Mr. Grady stated part of this decrease is Corporation Counsel spending less time on pension matters because of the termination of the Mercer litigation in 2009. Mr. Yerkes noted the budget for postage, outside services, and printing and stationary are all forecasted to increase due to costs related to the OBRA project.

In response to a question from Ms. Mayr regarding the OBRA mailing, Mr. Huff stated there will be different letters for different groups. In response to a question from Mr. Stuller, Mr. Schroeder indicated the Audit Committee will receive a draft of the letters before ERS distributes them.

Mr. Yerkes stated the budget for travel and education is forecasted to increase $11,000. Part of the increase is from an anticipated increase in travel in 2011 by four new board members. The Chairman encouraged new Board members to attend the Wharton courses to ensure all Board members operate with similar educational backgrounds. Mr. Yerkes stated that the 2011 budget is forecasted to decrease about $573,000 compared to the 2010 budget.

In response to a question from Mr. Stuller regarding ownership of computer hardware, Mr. Schroeder indicated that in 2011 ERS intends to inventory and identify which property belongs to ERS and which property belongs to the County.

The Chairman suggested that Board members review the ERS Check Register report for July 2010 to September 2010.

6. Investments

(a) Baring Asset Management Report

David Bertocchi and William Tsotsos of Baring Asset Management ("Barings") distributed copies of a Milwaukee County ERS Investment Review.

Mr. Tsotsos stated that he is the managing director of the ERS account and David Bertocchi is a portfolio manager on the international equity portfolio.

Mr. Tsotsos first presented an overview of Barings. Barings currently has about $50 billion in assets under management. Barings' international equity portfolio and emerging markets equity portfolio in which ERS is invested continue to add accounts. In response to a question from the Chairman, Mr. Bertocchi indicated that the Barings international equity portfolio and emerging markets equity portfolio share the same analysts.

Mr. Tsotsos reviewed reasons to have confidence in Barings. First, Barings has about 40 investment professionals covering the world's major markets. Second, each portfolio has about 60 holdings that Barings has researched and in which Barings has full confidence. Third, Barings is all cap, investing in both small and large companies with a bias to large companies. Barings prefers its portfolios to be as liquid as possible, which provides flexibility to change investments.

Mr. Bertocchi reviewed the performance of the international equity portfolio. The third quarter of 2010 was disappointing for the portfolio. While August was a positive month, July and September were not as strong. This demonstrates the volatility in the markets. The international equity portfolio has performed better year-to-date and on the one-year and two-year numbers. Barings wants a positive return since inception on October 31, 2007.

Mr. Bertocchi reviewed the third quarter performance of the international equity portfolio by sector and by region. One reason for the underperformance of the portfolio was that the industrials sector and the United Kingdom investments did not perform well in the third quarter, mainly because of the negative performance of a company named DE LA RUE. DE LA RUE experienced an operational issue in one of its manufacturing facilities, which led to a profit warning. While DE LA RUE management assured Barings of its ability to fix the problem, Barings placed DE LA RUE on its watch list. Another reason for the underperformance of the portfolio was the negative performance of the information technology sector. The health care sector was a positive contributor to performance.

Mr. Bertocchi next discussed the third quarter performance of investments in specific companies in the international equity portfolio. DE LA RUE was the biggest detractor from performance in the third quarter. Mindray Medical International also did not perform well in the third quarter. Mindray Medical International is a Chinese medical devices company that Barings no longer holds. While China has had a huge advantage on the cost front for many years, the advantage is not limitless.

Mr. Bertocchi stated that the top performing company in the portfolio in the third quarter was Yara International ASA, a Norwegian-based fertilizer producer. Barings likes agricultural companies because the demand for food remains stable over time.

In response to a question from the Chairman regarding whether Barings buys stock of parent companies or their subsidiaries when they are located in different countries, Mr. Bertocchi indicated Barings invests either in the parent or subsidiary, depending on which it believes is the more attractive investment at the time.

Mr. Bertocchi noted that Japanese companies included in the bottom ten performers in the portfolio for the third quarter are Disco Corp., Keyence Corp., Rakuten Inc., and the Secom Co. Ltd. However, Barings likes these companies because they sell products internationally. For example, Disco Corp is a leading supplier in the switch to LED lighting.

Mr. Bertocchi then described the performance of the international equity portfolio on a one-year basis through September 30, 2010, by sector, country, and region. About one-third of the negative performance of the industrials sector was a result of DE LA RUE's recent negative performance. Barings also will look for industrial companies in Europe that are performing well to improve the performance of the industrials sector. China, Russia, and Brazil have not been strong contributors to emerging markets in 2010. Centamin Egypt Ltd. has been the international equity portfolio's best performing stock on a one-year basis.

Mr. Bertocchi next discussed the weights to regions in the international equity portfolio. The allocation to emerging markets is 7% overweight versus the benchmark. The portfolio's allocations to Europe and to Japan are underweight versus the benchmarks. In response to a question from the Chairman regarding the portfolio carrying 2.9% cash, Mr. Bertocchi indicated Barings tries to keep some cash available to purchase stock to avoid having to wait for sales to clear.

Mr. Bertocchi then described the weights to sectors in the international equity portfolio. The industrials and utilities sectors are underweight versus the benchmarks. The information technology and energy sectors are overweight versus the benchmarks. Barings is surprised that energy stocks are lower than anticipated despite relatively high oil prices. Barings believes energy stocks still offer attractive investment opportunities.

Mr. Bertocchi next discussed the investment outlook of the international equity portfolio. Barings believes the economic recovery continues. While Barings does not expect an immediate new recession, Barings also does not expect strong growth. Barings believes government spending to stimulate the economy will decrease because some governments are not able to borrow funds at favorable terms. In response to the private sector reducing leverage, Barings believes that central banks and governments will keep interest rates low. If there is a weak economic recovery, Barings believes it will be important to add growth stocks to the portfolio.

Mr. Bertocchi then described the overall debt level of the U.S. economy over time. The current debt level of the U.S. economy is very high. The last big increase in U.S. debt levels was in the 1930s. The subsequent quick deleveraging of the economy caused the Great Depression. Therefore, federal governments and central banks are trying to prevent quick deleveraging to avoid a deep recession or depression. In response to a question from the Chairman, Mr. Bertocchi indicated that the type of deleveraging by consumers in the U.S. is happening in other western markets as well.

In response to a question from the Chairman regarding Barings' expectations for future performance, Mr. Bertocchi stated that Barings expects a weak economic recovery. In a weak economic recovery, cash and government bond yields are low while equity earnings remain high. Barings believes that equities are the best way to achieve growth in the current economic environment. However, in the past there were two time periods where the bond market has impacted equity markets. The first time period was the stock market crash of 1987, where the stock market was hurt by a bond market sell-off. The second time period was in 1994, when the Fed raised interest rates, which caused an equity market sell-off. Barings believes that this is a good environment for equities as long as interest rates remain low.

Mr. Tsotsos stated that the absolute numbers for the emerging markets equity portfolio are strong. The Chairman suggested that Barings discuss the emerging markets equity portfolio in detail in its next presentation to the Pension Board after Barings has managed the ERS investment in that portfolio for a longer period of time. The Chairman noted there is information about the emerging markets equity portfolio in the back of the presentation Barings distributed to Board members.

(b) Marquette Associates Report

Brett Christenson of Marquette Associates, Inc. distributed its monthly report.

Mr. Christenson first described the U.S. equity markets. The S&P 500 had a return of 8.9% in September 2010. Both mid-cap stocks and small-cap stocks had returns of around 10%. In October 2010, the stock market currently has a positive return of about 3%. Marquette recommends that ERS maintain its existing allocations and be strict on rebalancing to capture market gains. Currently, there is earnings momentum in the stock market.

Mr. Christenson then described the international equity market environment. The MSCI All Country World ex U.S. index was up 10% for the month of September 2010. The return of the MSCI EAFE (U.S. dollar) index was 9.8% for September 2010 while the return of the MSCI EAFE (Local) index was 5.2% for September 2010. This shows there was a gain of about 4.5% due to the dollar depreciating versus foreign currencies. When the U.S. government buys government debt from banks, it adds cash flow to the U.S. economy, driving interest rates down, which keeps U.S. currency low versus other currencies. When the U.S. currency is low versus other currencies, it helps U.S. companies increase earnings overseas and it helps increase U.S. exports.

Mr. Christenson stated that the MSCI Emerging Markets index was up 11% for September 2010. The Citi World ex U.S. < $2 billion index was up about 11% for the month. ERS has about 15% of its international portfolio allocated to small-cap international and about 15% allocated to emerging markets, and both of those markets performed well in September 2010.

Mr. Christenson next discussed the commercial real estate market. There was a relatively quick turnaround the last two quarters in the commercial real estate market, which experienced significant depreciation starting in 2008. The return of the NFI-ODCE (preliminary) index was 6% for the third quarter with only 1.6% from income and 4.4% from gains in appreciation. High-quality core properties are in high demand. Marquette expects stabilization in the commercial real estate market going forward with returns around 8% in core high-quality real estate over the long term. Marquette anticipates that the ERS commercial real estate allocation will have a return of 6.5% per year in income and 1.5% per year in appreciation.

Mr. Christenson then presented the September 2010 flash report. The ERS portfolio has a market value of approximately $1.8 billion in assets through September 2010. The ERS portfolio is slightly overweight in fixed income, U.S. equity, and international equity.

Mr. Christenson noted that while the ERS portfolio was underweight in infrastructure by 3.3% at the end of September 2010, ERS funded J.P. Morgan on October 4, 2010, causing the allocation to infrastructure to be in line with the target allocation. Also, ERS funded J.P. Morgan from fixed income. Thus, while the monthly report shows fixed income as overweight as of the end of September 2010, fixed income is currently underweight by 2%. The allocation to long-short equity is in line with the target allocation. The ERS portfolio is slightly underweight in real estate and is underweight in private equity by about 2%. While cash is currently at about 2% of the portfolio, Mr. Christenson stated that it makes sense to overlay cash over the long term.

In response to a question from the Chairman, Mr. Christenson indicated that Marquette is not recommending any rebalancing at this time and Marquette will use the $10 million ERS needs for October cash flow to rebalance the portfolio.

Mr. Christenson stated that ERS funded real estate manager Morgan-Stanley with $75 million at the end of the third quarter. In response to a question from Ms. Bedford, Mr. Christenson indicated that ERS partially liquidated the ING Clarion investment to $47 million and will draw down ING Clarion to zero as American Realty and UBS make capital calls.

Mr. Christenson then discussed the performance of the ERS fund. The return of the ERS fund is 7% gross of fees year-to-date and 5.2% gross of fees for September 2010. The return of the stock market is only 5% year-to-date. The fixed income composite has a return of 8.2% year-to-date, beating the benchmark of 7.9%. The return of the domestic equity composite is 6.5% year-to-date, outperforming the benchmark of 5%. The international equity composite has a return of 4.7% year-to-date, exceeding the benchmark of 4.1%. IFM had a return of 5.9% for September 2010. IFM captured positive returns in July and August from currency gains. The Chairman noted that ERS timed its IFM investment very well and invested quickly to capture positive returns.

Mr. Christenson then reported on the September 2010 manager returns. Artisan Partners, a mid-cap growth equity manager, has consistently exceeded the benchmark. Marquette will monitor Reinhart Partners, a company that is not performing as well. While the GMO large-cap value fund performed better than the benchmark for September 2010 and on a 10-year basis, it is underperforming the benchmark on a 7-year basis. The long-short equity managers had a return of about 3% in September 2010. Most long-short equity managers missed part of the recent market rallies because they were concerned with the amount of debt in the U.S. and in foreign countries.

The Chairman asked Mr. Christenson to discuss the private equity education which John Gray of Adams Street presented at the last Investment Committee meeting. Mr. Christenson noted that Adams Street is the ERS private equity manager. He stated that historically, private equity markets outperform public equity markets by about 5%. The downside is that private equity is a very illiquid asset class. Mr. Christenson indicated that Mr. Gray discussed several asset classes of private equity.

The Chairman stated that Mr. Gray recommended that ERS invest in private equity every year or every other year because private equity usually does not have much of a return in the early years and to diversify over "vintage" years. The Chairman indicated it generally takes four to five years to generate growth and returns on private equity investments. Mr. Christenson stated that ERS needs to keep investing in private equity to stay invested over time and, as noted by the Chairman, to spread its investments in private equity over different calendar years to maintain diversification.

7. Audit Committee Report

Mr. Stuller reported on the October 7, 2010, Audit Committee meeting. The Audit Committee first discussed the 2011 Pension Budget and highlighted various budget items, such as a decrease in investment manager fees and cash management fees.

The Audit Committee next discussed the upcoming RFP timeline. Mr. Grady noted that he hopes to have a contract for legal services completed by April 1, 2011. The contract for actuarial services is scheduled to be complete July 1, 2011.

The Audit Committee then discussed the deferred vested retirement notification policy. Mr. Schroeder stated that at the September 2010 Pension Board meeting, the Pension Board authorized ERS to send a notification to deferred vested members 60 days prior to normal retirement age encouraging them to apply for benefits. The Audit Committee discussed whether to also send a notification to deferred vested members eligible for early retirement and delayed further discussion for Corporation Counsel input. ERS is analyzing additional V-3 programming costs associated with the notification to deferred vested members eligible for early retirement.

The last topic the Audit Committee discussed was the PSO notification. Mr. Schroeder indicated ERS currently notifies employees of the PSO process on the intranet and in the brochure series. The Audit Committee delayed further discussion of this issue until the November Audit Committee meeting for Corporation Counsel input. In response to a question from Mr. Grady, Mr. Schroeder indicated that the V-3 system is able to send the PSO notification to employees.

8. Investment Committee Report

The Chairman reported on the October 4, 2010, Investment Committee meeting. Marquette first presented a September 2010 flash report showing the positive returns in the market for the month. The Investment Committee next postponed a discussion of a trading cost analysis.

John Gray from Adams Street then presented an overview of private equity to the Investment Committee. The Chairman noted the Investment Committee discussed how ERS should continually allocate funds to private equity rather than investing large amounts in a single year.

The Chairman indicated the Investment Committee plans to have more training sessions and that the entire Board is welcome to attend the training sessions.

9. Administrative Matters

The Pension Board discussed additions and deletions to the agendas of the Pension Board, Audit Committee, and Investment Committee. Mr. Grady suggested that securities litigation monitoring be added to either the Audit Committee or Investment Committee agenda. The Chairman noted that class action firms monitor class actions for free and may encourage ERS to become a lead plaintiff if ERS asks firms to monitor securities litigation.

10. Pending Litigation

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 10 and 11 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 8-0 to enter into closed session to discuss agenda items 10 and 11. Motion by Ms. Bedford, seconded by Mr. Cohen.

(a) *Mark Ryan, et al. v. Pension Board*

The Pension Board took no action on this item.

(b) *Travelers Casualty v. ERS & Mercer*

The Pension Board took no action on this item.

11. Report on Compliance Review

The Pension Board took no action on this item.

12. Adjournment

The meeting adjourned at 11:00 a.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board